

EASTERN CARIBBEAN CURRENCY UNION (ECCU)

1. General trends

Economic activity in the Eastern Caribbean Currency Union (ECCU) territories¹ expanded by an estimated 1.3% in 2014, up from 1.1% in 2013. Indeed, output picked up in a number of ECCU member States, namely, Anguilla, Antigua and Barbuda, Grenada, Montserrat and Saint Kitts and Nevis. Output increased only marginally in Dominica and contracted in both Saint Lucia and Saint Vincent and the Grenadines. This improved economic performance was driven mainly by growth in the tourism sector and its spillover effects into related sectors, including food service, transportation, communications and agriculture. The growth in tourism, especially in stay-over visitors, reflects the continued economic recovery in the main tourism markets as well as increased airlift from these sources. It is projected that economic activity in ECCU will expand by 2.3 % in 2015.

Current revenue in ECCU rose by 6.2% in 2014, to stand at 4.006 billion Eastern Caribbean Dollars (EC\$) or 24.8% of GDP. Increases were generated from both tax and non-tax sources, the main tax categories being income and profits, domestic goods and services, and international trade and transactions. Much of this gain was due to more efficient collection of sales tax and property tax. Current expenditure in the ECCU member States increased marginally (2%) year on year to EC\$ 3.771 billion in 2014. Increases were incurred mainly under transfers and subsidies and interest payments.

Official unemployment statistics are for the most part unavailable, except in the cases of Saint Lucia and Grenada. Available data for these two islands probably reflect the general problem of high unemployment, particularly among young people. The unemployment rate in Saint Lucia is estimated at 23% and youth unemployment stands at 39%. The situation is more acute, though improving, in Grenada, where unemployment in 2014 was estimated at 32.5%, down from 33.5% in 2013. Youth unemployment also improved from 55.6% in 2013 to 45.4% in 2014, with unemployment among women estimated at 31.5%.

Prices in 2014 were estimated to have increased marginally across the Currency Union. Following deflation of 0.2% in 2013, average inflation across ECCU was estimated to be 1.5% in 2014. Most of the member countries showed low positive inflation rates, with the exception of Grenada, which experienced deflation of 1.8% in 2014. Saint Lucia posted the highest rate of inflation (3.7%) among ECCU economies in 2014.

2. Economic policy

(a) Fiscal policy

The fiscal performance of ECCU in 2014 was more favourable than in 2013. Almost all member countries experienced an overall improvement in their fiscal position. The overall fiscal deficit of ECCU contracted from 3.4% of GDP (EC\$ 523.8 million) in 2013 to 1.2% of GDP (EC\$ 186.8 million) in 2014, reflecting higher earnings and lower public capital expenditure. The decline in capital expenditure within

¹ This report covers all eight members of the Currency Union.

the Union may be largely attributed to the reduction in capital expenditure in Dominica and Saint Lucia. In keeping with the improved fiscal position, a primary surplus of EC\$ 285.3 million was recorded for the year, compared with a deficit of EC\$ 86.0 million in 2013.

Central governments posted a surplus of 1.5% of GDP in 2014, up from 0.5% in 2013. The Union's public sector debt, which accounts for 87.3% of total debt, stood at EC\$ 13.176 billion at the end of 2014, representing an increase of 0.8% over the previous year. However, the debt to GDP ratio improved, declining from 84.5% in 2013 to 81.5% in 2014. The countries where public sector debt increased were Antigua and Barbuda, Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines. The largest increase (5.8% or EC\$ 177.6 million), incurred by Antigua and Barbuda, related mainly to the financing of domestic corporations.

In order to tackle the high debt and fiscal imbalances run up by member States prior to 2013, ECCU adopted the Eight-Point Stabilization and Growth Plan as the basis for restructuring their economies and stimulating sustained growth over the short to medium term. This approach of fiscal consolidation was designed to reduce fiscal deficits and public debt by meeting annual targets set by the Eastern Caribbean Central Bank (ECCB). Throughout the period under review, the Central Bank, guided by the imperatives of the Stabilization and Growth Plan, continued to support ECCU member governments' fiscal reform and debt management efforts.

The Stabilization and Growth Plan has impacted positively on revenues. Both tax and non-tax revenues increased in 2014. Value added tax, sales tax and property tax accounted for the most significant gains in tax revenue. The primary balance was in surplus towards the end of 2014, reversing the deficit recorded in 2013. Constrained by the policy of fiscal consolidation, the public sector debt stock showed only a marginal increase over the 2013 level.

(b) Monetary policy

The Eastern Caribbean Central Bank (ECCB) is responsible for the design and implementation of monetary policy in ECCU. Its functions include regulating the availability of money and credit and promoting and maintaining monetary stability. With respect to monetary stability, the Bank focuses on supporting the value of the regional currency, in terms of preserving its purchasing power. Given the small size and openness of the ECCU economies, the Bank has pursued price stability through the maintenance of a fixed exchange rate (linked to the United States dollar).

In regulating the availability of money and credit, ECCB is constrained by the underdeveloped nature of the financial markets in the region. Thus, it is unable to influence interest rates or to control the availability of money and credit through market mechanisms. In practice, interest rates in the Currency Union are set at the discretion of the commercial banks except for the minimum rate payable on savings deposits, which is regulated by ECCB.²

At the end of 2014, the total money supply (M1) in the ECCU countries stood at EC\$ 3.189 billion, which represents an increase of 10.7% over the level at the end of 2013. Money liabilities (M2) totalled EC\$ 14.811 billion at the end of 2014, an increase of 5.9% over 2013. In 2014, the domestic credit stock among ECCU member States declined by 6.5%. The reduction in domestic credit applied to borrowing by both the private and the public sector; in the case of the former, the decline related mainly to loans for businesses. Net domestic credit to central governments contracted by 34.1%

² See Eastern Caribbean Central Bank (ECCB), *Annual Economic and Financial Review 2014*, 1 June 2015.

year on year in 2014 and the subdued investment climate resulted in a 35.6% fall in credit to non-bank financial institutions. On a per sector basis, the declines were as follows: agriculture and fisheries: 17.2%; construction: 12.3%; manufacturing: 10.1%; and tourism: 9.0%.

(c) Other policies

While ECCU is slowly emerging from its recession, which ended in 2012, its growth rates are not currently high enough to be able to reduce debt or increase employment levels. Economies such as Antigua and Barbuda, Grenada, Saint Kitts and Nevis and Saint Lucia are therefore continuing to emphasize State-assisted social protection and unemployment relief programmes. With regard to progress towards meeting the requirements of the United States Foreign Tax Compliance Act (FATCA), the ECCU member States passed the Foreign Account Tax Compliance Act (United States) Implementation and Enforcement Bill 2014, which legalized the disclosure of customer information to the United States Internal Revenue Service.

3. The main variables

(a) The external sector

The balance-of-payments current account deficit narrowed from 17.1% of GDP in 2013 to 14.4% of GDP in 2014 and reflects a reduction in payments for manufactured goods, fuels and food. Lower imports were recorded for Grenada, Montserrat, Saint Lucia and Saint Vincent and the Grenadines. The movement in merchandise trade in 2015, in particular that observed in the first two quarters of the year, is likely to result in a much lower reduction in the current account balance as any further softening of global prices for merchandise items and energy is likely to be modest.

(b) Economic activity

The structure of the economies of the ECCU member States reveals a strong dependence on the services sector, particularly tourism, catering to both stay-over and cruise ship visitors. During 2014, the region saw an increase in tourist arrivals, particularly stay-over visitors, compared with a decline in 2013. This trend is likely to continue in 2015 as conditions improve in major markets: the United States, the United Kingdom and Canada.

While bananas were once the main agricultural crop and export from the region (mainly the Windward Islands: Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines), production continued to slump in 2014. Banana production is estimated to have declined by approximately 30% owing to the Black Sigatoka disease and unfavourable weather conditions. The ECCU member States have, however, recorded an increase in non-banana agriculture, namely, food crops and vegetables. The outlook for 2015 is for a modest improvement in non-banana production but there is no prospect of an early recovery in the production of bananas.

Output in the manufacturing sector remained largely unchanged in 2014 compared with 2013. The expectation is that modest improvements, if any, are likely in 2015 as the domestic economy in the member States continues to improve.

Growth prospects for ECCU in 2015 are for a slight improvement over the 1.3% recorded in 2014 on the back of the performance of the major economic driver, the tourism sector, which reflects more positive economic projections for the region's major markets as well increasing airlift to the region.

(c) Prices, wages and employment

Consumer prices rose by 1.5% in 2014 following a decrease (of 0.2%) in 2013. The main categories contributing to inflation were clothing and footwear, fuel and light, food and utilities. This trend of modest price inflation is likely to continue in 2015 as member States' economies are projected to grow marginally.

Official unemployment statistics are for the most part unavailable, except in the case of Saint Lucia and Grenada. Unemployment tends to be high in the ECCU countries, particularly among young people. While attempts are being made to remedy the situation, the prospects, if any, for short-term improvements in employment in 2015 are not bright.

Table 1
EASTERN CARIBBEAN CURRENCY UNION (ECCU): MAIN ECONOMIC INDICATORS a/

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 b/ |
|---|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Annual growth rates c/ | | | | | | | | | |
| Gross domestic product | 6.7 | 4.9 | 2.6 | -3.7 | -1.6 | 0.7 | 1.1 | 1.1 | 1.3 |
| Per capita gross domestic product | 5.8 | 4.1 | 1.7 | -6.6 | -3.8 | -0.6 | -0.5 | 0.4 | 1.6 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fish | 4.4 | 0.4 | 8.9 | 2.5 | -13.1 | 1.8 | 5.0 | 4.1 | 3.4 |
| Mining and quarrying | 47.8 | 14.8 | 3.4 | -28.0 | -17.6 | -11.3 | 4.2 | 10.4 | 7.9 |
| Manufacturing | -2.6 | 3.9 | -0.3 | -0.5 | -5.4 | -0.5 | 0.2 | -3.8 | 1.0 |
| Electricity, gas and water | 4.0 | 5.6 | 2.5 | 3.2 | 0.5 | 2.4 | 0.0 | -0.8 | -0.7 |
| Construction | 14.7 | 1.0 | 1.6 | -12.4 | -16.4 | -9.8 | -4.1 | 4.1 | -4.1 |
| Wholesale and retail commerce, restaurants and hotels | 6.1 | 5.1 | 2.9 | -12.8 | -1.3 | 1.1 | 0.8 | -0.2 | 2.5 |
| Transport, storage and communications | 2.3 | 5.1 | 0.6 | -4.0 | -0.7 | -1.1 | -2.8 | -1.2 | 2.7 |
| Financial institutions, insurance, real estate and business services | 5.4 | 4.5 | 1.6 | -0.7 | -0.9 | 1.3 | 0.8 | 1.7 | 0.6 |
| Community, social and personal services | 5.8 | 5.3 | 3.7 | 3.2 | 0.7 | 2.2 | 2.7 | 2.1 | 1.7 |
| Balance of payments | | | | | | | | | |
| Millions of dollars | | | | | | | | | |
| Current account balance | -1,082 | -1,364 | -1,514 | -991 | -1,000 | -944 | -893 | -885 | -781 |
| Goods balance | -1,635 | -1,872 | -2,023 | -1,557 | -1,621 | -1,654 | -1,624 | -1,665 | -1,654 |
| Exports, f.o.b. | 347 | 350 | 438 | 426 | 456 | 423 | 463 | 467 | 437 |
| Imports, f.o.b. | -1,704 | -1,920 | -2,101 | -1,633 | -1,759 | -1,772 | -1,798 | -1,820 | -1,763 |
| Services trade balance | 605 | 613 | 615 | 632 | 640 | 713 | 745 | 781 | 870 |
| Income balance | -203 | -234 | -251 | -220 | -162 | -144 | -166 | -128 | -140 |
| Net current transfers | 151 | 131 | 145 | 154 | 143 | 141 | 153 | 128 | 143 |
| Capital and financial balance d/ | 1,159 | 1,397 | 1,497 | 1,092 | 1,092 | 1,010 | 970 | 978 | 1,033 |
| Net foreign direct investment | 928 | 1,061 | 849 | 613 | 516 | 398 | 490 | 620 | 563 |
| Other capital movements | 231 | 336 | 649 | 479 | 576 | 612 | 480 | 359 | 470 |
| Overall balance | 77 | 34 | -17 | 101 | 92 | 67 | 77 | 93 | 252 |
| Variation in reserve assets e/ | -77 | -34 | 17 | -101 | -92 | -67 | -77 | -93 | -252 |
| Other external-sector indicators | | | | | | | | | |
| Net resource transfer (millions of dollars) | 956 | 1,163 | 1,246 | 873 | 931 | 866 | 804 | 850 | 893 |
| Total gross external debt (millions of dollars) | 1,913 | 2,131 | 2,057 | 2,110 | 2,194 | 2,303 | 2,324 | 2,522 | 2,560 |
| Central government | | | | | | | | | |
| Percentajes of GDP | | | | | | | | | |
| Total revenue | 25.2 | 24.7 | 26.1 | 25.0 | 25.6 | 26.0 | 25.7 | 26.4 | 27.1 |
| Tax revenue | 20.5 | 21.1 | 21.4 | 20.8 | 20.6 | 20.7 | 20.3 | 20.2 | 20.9 |
| Total expenditure | 29.1 | 27.5 | 28.8 | 29.5 | 28.0 | 29.6 | 28.0 | 29.9 | 28.4 |
| Current expenditure | 20.9 | 20.2 | 21.7 | 23.3 | 23.1 | 23.9 | 23.3 | 23.5 | 22.9 |
| Interest | 3.2 | 3.0 | 2.9 | 3.1 | 3.0 | 3.1 | 3.2 | 3.0 | 3.1 |
| Capital expenditure | 8.1 | 7.3 | 7.1 | 6.2 | 4.9 | 5.7 | 4.7 | 6.4 | 5.5 |
| Primary balance | -0.7 | 0.2 | 0.3 | -1.3 | 0.6 | -0.6 | 0.9 | -0.5 | 1.7 |
| Overall balance | -3.9 | -2.8 | -2.7 | -4.4 | -2.4 | -3.6 | -2.3 | -3.5 | -1.3 |
| Money and credit | | | | | | | | | |
| Percentages of GDP, end-of-year stocks | | | | | | | | | |
| Domestic credit | 67.6 | 73.0 | 76.7 | 83.7 | 83.7 | 83.4 | 81.9 | 77.2 | 69.2 |
| To the public sector | -0.1 | 0.6 | 1.7 | 3.8 | 1.6 | 1.6 | 0.7 | -4.2 | -7.3 |
| To the private sector | 67.8 | 72.4 | 75.0 | 79.9 | 82.1 | 81.9 | 81.2 | 81.4 | 76.2 |
| Monetary base | 13.0 | 12.8 | 12.0 | 12.9 | 14.8 | 16.6 | 17.1 | 18.7 | ... |
| Money (M1) | 19.9 | 19.7 | 18.7 | 18.0 | 18.4 | 18.9 | 19.2 | 19.1 | 20.4 |
| M2 | 70.0 | 69.8 | 69.9 | 73.9 | 76.0 | 77.6 | 78.5 | 79.3 | 78.9 |
| Foreign-currency deposits | 8.2 | 8.4 | 7.1 | 6.7 | 7.0 | 6.7 | 7.0 | 8.3 | 10.4 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Refers to six countries: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Vincent and The Grenadines and Saint Lucia.

b/ Preliminary figures.

c/ Based on figures in local currency at constant 2006 prices.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.